

### Remarks

Applicant acknowledges with appreciation the personal interview between Applicant's Representative and the Examiner on January 10, 2008. The substance of the interview is discussed below.

The August 23, 2007 Office Action maintains the rejection of claims 1-50 under 35 U.S.C. § 103(a) as being unpatentable over U.S. Patent No. 4,674,044 ("Kalmus"). Applicant requests reconsideration and withdrawal of this rejection for the reasons presented at the interview, which are summarized below. At the conclusion of the interview, the Examiner indicated that the reasons presented at the interview were persuasive, but that he would conduct further searches.

Independent claims 1, 16, 18, 33, 34, 39, 41 and 46 recite methods, computer program products, and data processing systems related to the trading of interests which each include among their terms a price and a quantity that are disclosed to other traders, and a reserve quantity that is not. The independent claims express this in different ways. Claim 1, which is selected for purposes of discussion, recites:

receiving from a given user an order comprising terms for a total desired trade of an interest, said terms comprising an identification of said interest, an initial price, an initial quantity, and a **reserve quantity**, said total desired trade being for a total desired quantity of the interest equal to a sum of said initial quantity and said reserve quantity; (Emphasis supplied.)

\* \* \*

disclosing, based on the order received from the given user, terms of a first proposed trade of said interest to others via the at least one network, said terms for a first proposed trade comprising an identification of said interest, said initial price, and said initial quantity.

Claim 1 thus recites receiving a total quantity for an order, where the total quantity comprises an initial quantity and a reserve quantity, and disclosing only the initial quantity as part of a first proposed transaction. The remaining quantity (the reserve quantity) is not disclosed with respect to the otherwise disclosed proposed first transaction.

At the interview, Applicant's Representative explained that orders with reserve included a disclosed price term, a disclosed quantity term and an undisclosed (to others) reserve quantity term, and that orders with a reserve, undisclosed quantity were known and understood in the art. Applicant's Representative demonstrated this in exhibits, left with the Examiner, which referred to orders with reserve. Additional copies are provided herewith designated Exhibits A-C. Exhibit D is another example. Reserve is also discussed in WO01/16830, published March 8, 2001, based on US applications filed May 30, 2000 and September 1, 1999. This published International Application is assigned to the assignee of this application.

Reserve orders, as described in the application, include a reserve quantity that is not disclosed to other traders as part of an initial proposed transaction. The screen depicted in application Fig. 5 illustrates orders displayed on a trader's screen for trading interests in electricity forwards.<sup>1</sup> The right side of the screen shows the trader's own orders and the left side of the screen shows all orders (bids and offers), including those of other traders and those of the trader (designated on the left side of the screen with an asterisk). Relevant here is that the displayed orders on the left side of the screen each include a "disclosed" price term and a quantity term, but no displayed reserve quantity. With respect to the only offer that is not asterisked (400.00 25 for the "Forward" period Aug 01 (in the middle column)) the price term is

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<sup>1</sup> As pointed out in the application, the invention is applicable to trading of many other interests, such as currency (FX or foreign exchange), stocks, fixed income instruments, etc. See paragraph [0071].

400.00 (USD)/MW (megawatt) and the quantity is 25 MW.

However, if an entered order includes a reserve quantity, then, still, only the price and quantity terms disclosed to others, as shown in Fig. 5, but not the reserve quantity term. A reserve quantity is shown, for example, in a trader's bid entry screen which a trader uses to enter an order and which is not displayed to other traders. For example, the bid entry screen depicted in Fig. 6 shows a bid price and quantity of 100.00 (USD/ (MW) and 25 (MW), and a reserve quantity of 75 (MW). If this is accepted, either by pressing <GO> in the screen of Fig. 6 or clicking "YES" in the screen of Fig. 7, then the order is displayed in Fig. 8 in columns 1030 and 1006 (referenced at the top of the figure), at row 1036. There the bid price and quantity of 100.00 (USD/ (MW) and 25 (MW) are disclosed in row 1036, but the reserve quantity of 75 (MW) is not displayed in Fig. 8.

Applicant's Representative orally provided hypothetical examples at the interview of trades of orders with a reserve quantity. Briefly, using new hypothetical examples, the explanation was to the following effect. A trader seeing a displayed offer order showing a price term (e.g., 100) and a quantity term (e.g., 25), may select or "hit" the offer, and through conventional pop-up screens (not illustrated in the application) take less than<sup>2</sup> or all of the displayed quantity of 25. In this example, the reserve quantity is 75, making the total order size 100. A trade will be executed for any permitted quantity up to the total displayed quantity of 25. After any trade is executed, a post-trade order will be displayed with a new displayed quantity that is either the same as the initial displayed quantity (25) or the remaining quantity if less than 25 total remains. Thus, in an example where the entire displayed quantity of 25 is taken by another trader and a trade executed, then a post-trade order would be displayed, again with a

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<sup>2</sup> Perhaps limited by system default or user-set minimum values, etc.

quantity of 25, based on the initial quantity to be displayed, with 50 (instead of 75) still in reserve and not disclosed. In another example, if the trade were for 15, then the post-trade order would be displayed with a displayed quantity of 25 with non-disclosed reserve of 60. If after a number of trades, the total quantity remaining is, e.g., 40, with 25 displayed and 15 in reserve, and a trade is then executed for 20, then the post trade-order will have a total quantity of 20 left with no reserve, and the entire 20 would be displayed in the post-trade order.

The application gives another example in paragraph [0115].

As explained at the interview, in prior art systems which trade orders with reserve, the displayed post-trade order will have an unchanged price term, i.e., the displayed post-trade order in which the quantity was replenished from the reserve quantity will have the same price term as before.

The invention, as defined, for example, in claim 1, changes this. In the method of claim 1, a received order for a total desired trade comprises terms that include an initial price, an initial quantity and a reserve quantity, where the total desired quantity of the total desired trade is the sum of the initial and reserve quantities. The method of claim 1 associates a “reserve price change” with the total desired trade. The initial price and the initial quantity, but not the reserve quantity, are disclosed to others as terms of a first proposed trade. Upon acceptance of the first proposed trade, terms of a second proposed trade are disclosed which include a second quantity and a second price, where the second price is equal to the initial price changed by the reserve price change, and the second quantity includes at least a portion of the reserve quantity.

An embodiment of the “reserve price change” is referred to in the application as “scaleback,” or “step.” See, e.g., Fig. 6 (where the scaleback or price change is “1.000”) and paragraphs [0084] and [0085]. See, also, Exhibit C.

Applicant’s Representative argued at the interview that Kalmus does not disclose trades

with reserve quantities, much less reserve with the price change feature defined in claim 1, for example. In the August 23, 2007 Office Action, the Examiner apparently considered an “unexecuted order stored in memory” in Kalmus to be a reserve quantity. Kalmus describes an unexecuted order as follows:

Orders not executable, i.e., orders not qualified, are either stored in memory in the processor 10 for later execution if they become qualified (such as by a favorable change in the market price for a security which can then accommodate the customer's price limits) or are forwarded to other market makers for potential execution... (Col. 5, lines 15-22)

As discussed at the interview, in Kalmus, qualified and unqualified orders are separate orders, and neither order includes a reserve quantity for the other order. A qualified order can be traded. However, an unqualified order can not be traded in the system described in Kalmus, and is either stored (until it becomes qualified) or forwarded to another exchange, and an unqualified order is not combined with a qualified order while it is unqualified. An unqualified order can become qualified based, e.g., on a market price change. Thus, the system described in Kalmus does not trade orders with reserve. At the interview, Applicant's Representative understood the Examiner to agree with this. On the other hand, as pointed out at the interview and in the Exhibits, trading of orders with reserve, *per se*, as a general matter, is known in the art. However, trading of orders with reserve and a reserve price change, as defined in claim 1, for example, is new.

Therefore, it is submitted that claim 1 is allowable over Kalmus and the prior art of record. Based on the discussion at the interview and above, it is submitted that the other independent claims (claims 16, 18, 33, 34, 39, 41 and 46) are also allowable over Kalmus and the prior art of record. As for the dependent claims, since each is dependent on an independent claim discussed above, it is submitted that they are allowable as well.

Since each dependent claim is also deemed to define an additional aspect of the

invention, the individual reconsideration of the patentability of each on its own merits is respectfully requested even though, for reasons of brevity, such patentability is not separately argued herein. However, Applicant reserves the right to rely on and argue patentability of the subject matter of the dependent claims in this or another proceeding.

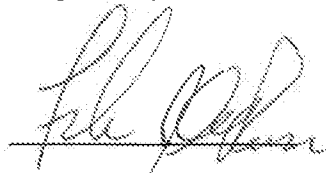
Similarly, because Applicant maintains that all claims are allowable for at least the reasons presented hereinabove, in the interests of brevity, this response does not comment on each and every comment made by the Examiner in the August 23, 2008 Office Action. This should not be taken as acquiescence of the substance of those comments, and Applicant reserves the right to address such comments.

**Closing**

In view of the above, it is submitted that all pending claims are allowable, and that the application is in condition for allowance. Applicant respectfully requests early reconsideration and allowance of the application with claims 1-50.

The Examiner is respectfully invited to contact Applicant's Representative by telephone on any issue which the Examiner believes is suitable for possible resolution or clarification by telephone.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Frank J. DeRosa', is written over a horizontal line.

Dated: February 22, 2008

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# FX Research and Strategy

## Sophisticated Foreign Exchange Forwards Trading

Bloomberg PowerMatch FX's Innovative Tools and Algorithms Empower FX Forward Traders to Develop Sophisticated Electronic Trading Strategies

The foreign exchange (FX) market is a decentralized, fast-moving, 24-hour complex market. North American-based traders face the added challenge of diminishing liquidity as the European session draws to a close. During this time, anonymity and trading tools such as Pegging, Reserve and Reserve-Scaleback enable traders to design more complex strategies that become essential when seeking to limit the market impact of large orders. Some traders are even finding that certain execution strategies can only be effectively executed electronically using tools such as those offered on electronic trading platforms, like Bloomberg PowerMatch FX.

Launched in mid-August, Bloomberg PowerMatch FX offers a powerful alternative for trading FX forwards. This electronic trading platform is completely anonymous until execution, when counterparty information is exchanged. The sophisticated and multi-layered credit matrix can assist traders in protecting anonymity by helping to ensure that parties can only act on markets where an

appropriate credit facility exists. The Bloomberg PowerMatch FX credit facility helps traders to define their eligible counterparties and set multiple credit limits. For example, traders can set credit limits by duration (in some cases limit credit exposure to only near-term forwards) as well as overall risk exposure. The credit

*The Pegging, Reserve and Reserve-Scaleback tools can be combined to create sophisticated trading strategies that some believe can only be executed efficiently on an electronic platform.*

facility is also dynamic in that it tracks the trading/credit limit activity on the system. Once a counterparty has reached its limit — either in the specific duration bucket or overall risk — trading is turned off.

Anonymity is particularly important in seeking to limit the market impact of an order. Sometimes the knowledge that a player at a large institution has an axe can move the market before the trader has the opportunity to move a position. For traders that wish to buy or sell large amounts of FX forwards, anonymity alone may not be enough to avoid information give-up. Displaying a large bid or offer also reveals to the marketplace the existence of a large buyer or seller. The

Reserve tool helps traders protect their full size intention by displaying only a small portion of the actual trade to the marketplace. For example, when using the Pop-up ticket (Figure 1), a trader can choose to display only 50M (a small portion) of the total 250M amount of the order. As the 50M displayed amount gets lifted, the system will automatically replenish the display by showing 50M — causing a decrement of the Reserve balance — until the reserve is depleted (note: the display will not refresh until the full 50M is completely lifted).

The Reserve-Scaleback trading tool provides traders with a more sophisticated use of Reserve. Some traders tend to establish positions by either buying on

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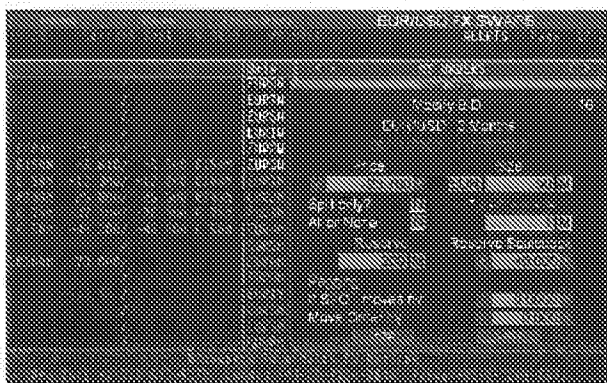


Figure 1

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## Sophisticated Foreign Exchange Forwards Trading *(cont'd from page 1)*

weakness or selling into strength. This is especially true when the market is trending. Conversely, others will provide support to the market and their positions when the market is volatile. For example, a trader long six-month forwards may be a scale-back buyer — buying at various points to support the market as prices move adversely to his position during times of volatility. In both situations, some traders prefer to trade electronically because it can be more efficient and may offer added protection from information leakage.

The Reserve-Scaleback trading tool works the same as Reserve, by allowing traders to display only a portion of their overall trade size to the marketplace, but instead of replenishing the display at the same price level, Reserve-Scaleback refreshes the displayed amount at a "scaled-back" price — at a preset amount below (on the bid-side) or above (on the offer-side) the previous price. Consider a trader establishing a position by buying on weakness (seeking to establish his position at a better average price) or supporting a falling market (to protect the position). Assume that the three-month Euro forward is at -13.15. In either of these situations, if the -13.15 bid gets hit, then the Reserve-Scaleback tool would put the new bid (left-hand side of screen) at -13.15 less the preset scale-back amount. If the scale-back was set at 0.05, the display would refresh at -13.20. This style of trading can be difficult in the current voice-brokering environment due to possible information leakage or even inefficiencies or delays in relaying the information. The Reserve-Scaleback tool, however, makes this process seamless while efficiently representing your order at the new price level.

Another challenge facing many FX forward traders is how to adjust their prices when the spot market is active. In a fast moving spot market, it can be difficult for traders to adjust their bids or offers. In

many instances, forward rates are agreed upon only to be broken, even while a trader is on the phone with his voice-broker. This is because the spot rate has changed, and therefore the two parties cannot agree upon a level. Since a trader can walk away once the forward points are changed, or if a spot rate is not agreed upon, valuable trade information is given up without any execution.

The Pegging tool and the rules of engagement on Bloomberg PowerMatch FX offer a solution to this problem. The Pegging tool enables traders to have their forward points adjust as spot rates move. If the spot rate moves, the points will adjust accordingly moving the bid or offer with the market. For example, traders can have their forward points change (by 0.01) when the spot market moves as little as 0.0001. The rules of engagement specify that the system will set the spot rate at the mid-point of the bid/offer upon execution. This prevents trades from being broken because counterparties cannot agree on the spot rate. Furthermore, because the trade is anonymous until execution, traders can avoid giving 'free information.' Figure 2 displays how a trader can Peg his six-month EURO/USD offer with the current EURO/USD market at 0.9810/0.9814.

The Pegging, Reserve and Reserve-Scaleback tools can be combined to create sophisticated trading strategies that some believe can only be executed efficiently on an electronic platform. For example, some traders are combining Pegging with Reserve. In this case the Pegging feature protects against bids and offers from sudden adverse market movements. The Reserve tool enables trading size at the appropriate level while seeking to limit possible

market impact from the large order. Others have found that by combining the Pegging and Reserve-Scaleback tools, they can provide liquidity and support to the market. The Pegging tool enables FX forward bids and offerings to freely adjust as spot prices ebb and flow. The Reserve-Scaleback tool enables traders to adjust their markets as forward traders become more aggressive. Because of the price volatility, the ability to combine tools together is especially critical in longer duration FX forward markets.

The system also accommodates split amounts for long-term forwards. Traders typically have two choices when executing a long-duration forward: straight amount execution (par for par) or split amounts. Figure 3 shows a EURO/USD two-month forward using straight amounts. The straight amount method dictates that both the near and far legs of the swap are done using the same amount. For example, if the transaction involves selling 100 MM Euro and buying the equivalent amount in dollar on the near end, the trader will buy back 100 MM Euro on the far end. Straight amount executions are a common method of choice for forward traders who speculate on, and trade the points, as opposed to the cost of funds. Since forward traders are simply trading the points that are locked in at the time of the trade, there is little concern that currency fluctuations may erode their return

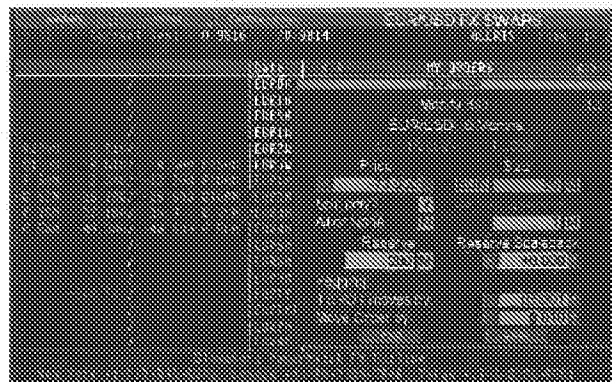


Figure 2.

*(cont'd on page 4)*





## Bloomberg Launchpad: Creating the Ultimate Trading Environment

Changes in interest rates, commodities, equities and news events can influence price trends of foreign exchange rates. As a result, FX forward traders are forced to analyze and process tremendous

amounts of information in order to design trading strategies and respond to changing market conditions. It is critical for traders to design personal "trading environments" to display market data. In response to these demands, Bloomberg has introduced Launchpad (BLP <Go>), an innovative new platform on the BLOOMBERG PROFESSIONAL® service that delivers the next generation in market data display technology. Screen-based components can be created in Launchpad that allow traders to move parts of Bloomberg's functionality outside of the traditional Bloomberg screens and directly onto the desktop. Launchpad enables traders to construct an interactive workstation driven by Bloomberg data, news and analytics in a format more conducive to trading.



Figure 1.

For most traders, the challenge has always been looking at all pertinent information, all of the time. Current market conditions have made things even more difficult — for example the ten-day volatility

of the Euro has increased from 35% to over 65% relating and the CBOE Volatility Index (VIX Index <Go>) has increased over 100% since May to levels not seen since the stock market crash of 1987. In the past, traders supplemented their Bloomberg Professional service with platforms that allowed them to create a screen-based trading environment. Market monitors on Bloomberg allowed traders to integrate different applications to create "pseudo-trading" environments with graphs, news and securities monitors but forced them to stay inside their Bloomberg screen. Launchpad, in essence, blows Bloomberg out of the box — enabling traders to create up to 25

different component screens on their desktops in addition to the traditional two or four Bloomberg Professional analytical screens.

Traders can design their desktops using selected components depending upon the information they need (Figure 1). For example, an FX forward trader can design a monitor view for each market such as a monitor for Treasuries (interest rates) that has the issue, its price, change in price on the day, yield and change in yield for the day. Interest rate futures and FX spot monitors can be created showing the price and change on the day with, perhaps, some key technical levels such as the 50-day moving average or RSI level to mark trend extremes. Equity futures and major indices can be followed with a monitor that has the

last price, change and percent change as well as some technical information. Additional components on the desktop can include graphs and news. All of these component screens can be created using the Launchpad menu "Launch" button.

Component screens can be integrated, or "grouped," with one another. Traders can drop a security from the monitor into a "group" and have, for example, historical and intra-day graphs and news panels update simultaneously. FX forward traders can now quickly act upon information without having to go to a Bloomberg Professional screen and run multiple functions. The group manager can be found under the Launchpad "Tool" menu option.

Launchpad extends the power of the Bloomberg Professional service directly to the desktop and empowers traders to create customized trading environments. For traders, it is imperative that market



Figure 2.

information be integrated with trading functionality and blotters. Components can surround traditional Bloomberg screens or other trading applications, enabling traders to integrate electronic trading platforms into their new views (Figure 2). For example,

(cont'd on page 4)

# Sophisticated Foreign Exchange Forwards Trading

(cont'd from page 2)



Figure 3.

amounts. A trade done using split amounts seeks to insulate the cost of funds used based on the underlying LIBOR market. When the split amount method is used, the near leg amount, or the par amount will be less than the far leg amount, unless interest rates are negative. In this example, the value of an investment in EURO over two months would earn €570 in LIBOR interest after it is valued back to the present day. The split amount method is common for arbitrageurs and investors, since their strategies rely on small profits that would easily disappear when currencies and interest rates move against them.

Traders are beginning to utilize the Bloomberg PowerMatch FX platform. Its innovative tools help them protect their markets from sudden adverse spot movements, design more sophisticated trading strategies and make it easier to post liquidity. Tools such as Pegging and Reserve enable traders to participate in the marketplace without displaying the full amount of their orders. The ability to select between

straight and split amounts offers additional flexibility when entering into longer duration forwards. Reserve-Scaleback enables traders to establish and support their positions. By combining innovative technology with industry standard practices, the Bloomberg PowerMatch FX platform allows traders to develop a more sophisticated approach to trading FX forwards.

## Bloomberg Launchpad

(cont'd from page 3)

traders can integrate Launchpad components with their traditional screens displaying Bloomberg PowerMatch FX trading screens (**FMON EUR <Go>** and **FMON CAD <Go>** — see Figure 2) and forward rate calculators (**FRD NEW <Go>**) to create the ultimate trading environment.

With volatility at historic highs and the markets more interrelated, traders need platforms that are flexible enough to be customized, while at the same time as having the ability to be integrated with electronic trading platforms. Figures 1 and 2 are examples of how Launchpad can empower a trader to organize his desktop/market view. This new innovative platform brings traders the next generation of market data display technology, empowering them to create trading environments to help them maximize their profitability.



Figure 4.

on or increase their cost of funds. However, traders using this method are still taking on spot exposure. Figure 4 shows the same EURO/USD two-month forward using split

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# The "Hunter" Algorithms

## Frustrated with Hidden Liquidity and Dark Pools?

Traders want to be everywhere. Liquidity is spread across multiple venues, Hidden orders, Reserve, Discretion and Dark Pools. Traders are forced to split their orders and distribute manually.

The Tradebook "Hunter" Algorithms seek to aggregate liquidity with:

*The industry's most comprehensive set of micro algorithms that HUNT and EXTRACT block and hidden liquidity simultaneously in both the dark and continuous market venues.*

- ✓ **Blocks:** *BLOCK HUNTER<sup>SM</sup>* algorithm seeks blocks of liquidity in both the dark and continuous markets
- ✓ **Discretion and Dark Pools:** *LIQUIDITY HUNTER<sup>SM</sup>* algorithm uses dynamic intelligence that seeks to find and extract hidden and discretionary liquidity in the dark and continuous markets
- ✓ **Reserve:** *RESERVE HUNTER<sup>SM</sup>* algorithm uses dynamic intelligence seeks to detect the presence of Reserve

**Example:** The "Hunter" algorithms working together to extract 30,000 shares hidden in the spread

| Tradebook Monitor |          |                                                                     |      |          |       |                 |        |       |                   |
|-------------------|----------|---------------------------------------------------------------------|------|----------|-------|-----------------|--------|-------|-------------------|
| LAST              | 11:36    | DIVX: DIVX INC                                                      |      |          |       | MKVWAP: 22.7755 |        |       |                   |
| AlphaPro          | JOIN BID | BUY                                                                 | SELL | JOIN ASK | SHORT | Detail View     |        |       |                   |
| My ALGOs*         | Total    | Mmkr                                                                | Size | Bid      | Ask   | Size            | Mmkr   | Total | Trades            |
| 10 MINUTES        | 4        | NSDQ g                                                              | 4    | 22.70    | 22.75 | 1               | NSDQ g | 1     | 11:36:30          |
| HAMMER-BUY        | 5        | ARCX                                                                | 1    | 22.68    | 22.75 | 1               | EDGX   | 2     | 11:36:30          |
| STAND-BY          | 7        | BLOCK HUNTER <sup>SM</sup> extracts 20,000 shares from a dark pool  |      |          |       |                 |        |       | 20x22.72 11:35:58 |
| PROBE BY          | 9        | LEHMAN                                                              | 1    | 22.69    | 22.79 | 1               | ARCX   | 4     | 11:35:04          |
| HAMMER-SELL       | 9        | ARCX                                                                | 1    | 22.63    | 22.80 | 7               | NSDQ g | 11    | 11:34:28          |
| TRIGGER SL        | 13       | RESERVE HUNTER <sup>SM</sup> uncovers an additional 9,900 shares in |      |          |       |                 |        |       | 9x22.73 11:34:28  |
| LARGE CAP         | 14       | LIQUIDITY HUNTER <sup>SM</sup> finds 100 shares between the spread  |      |          |       |                 |        |       | 1x22.73 11:34:20  |
| 300% VOLUME       | 15       | ARCX                                                                | 1    | 22.61    | 22.80 | 1               | ARCX g | 14    | 11:32:16          |

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Exhibit B

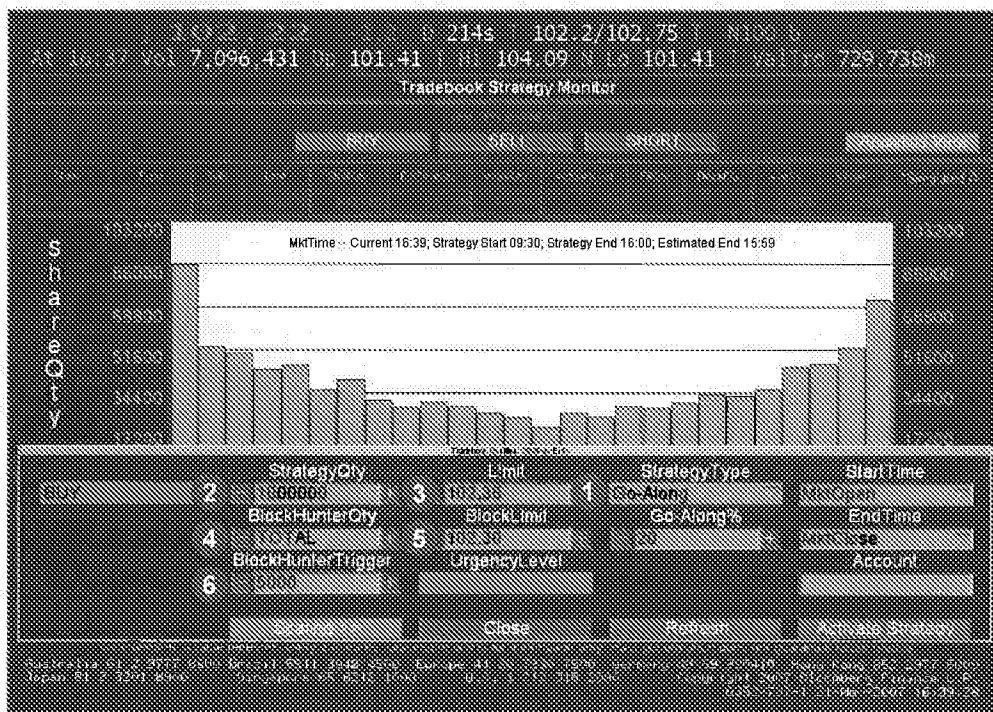
# Dark Liquidity Consolidation

BlockCross+Dark is Bloomberg Tradebook's new dark strategy that consolidates hidden block liquidity across providers including our new BlockCross ATS. The strategy only participates in non-displayed aggregated liquidity from buy-side and sell-side partners to create the ultimate liquidity source.

|                    |              |                 |           |
|--------------------|--------------|-----------------|-----------|
| StrategyQty        | Limit        | StrategyType    | StartTime |
| BlockHunterQty     | BlockLimit   | BlockCross+Dark | Now       |
| BlockHunterTrigger | UrgencyLevel | %Constrain      | EndTime   |
|                    |              |                 | Account   |
|                    |              |                 |           |
|                    |              |                 |           |
|                    |              |                 |           |

1. Select BlockCross+Dark from the StrategyType drop down menu
2. Enter the Total quantity of your order
3. Set your BlockLimit price, the algorithm will never break it
4. Set the minimum block size you are willing to execute

All Bloomberg Tradebook Algorithms can also access dark liquidity while working in the continuous market which maximizes your exposure to liquidity.



1. Select your desired algorithm, see page 2 for detailed explanation of each strategy
2. Enter your total strategy quantity
3. Set your Strategy Limit price
4. Enter the amount of your order you are willing to expose to dark pools
5. Set your BlockLimit price, the algorithm will never break it
6. Set the minimum block size you are willing to execute

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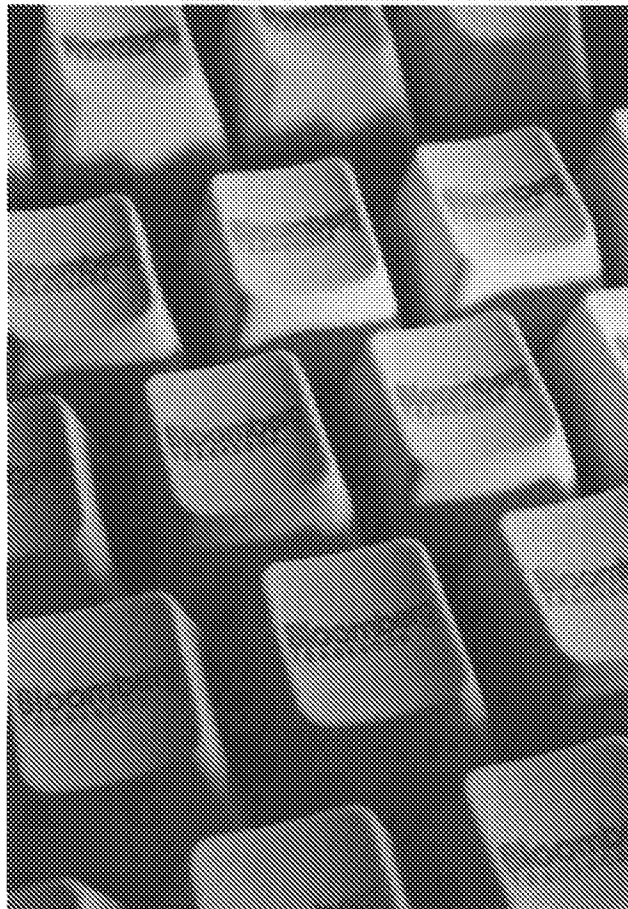
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# BLOOMBERG TRADEBOOK

## *International Equity User Manual*



**January 2003**

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## Reserve

The Reserve order type allows you to display to the market a portion of the order, while having the entire size of the order eligible to be acted upon.

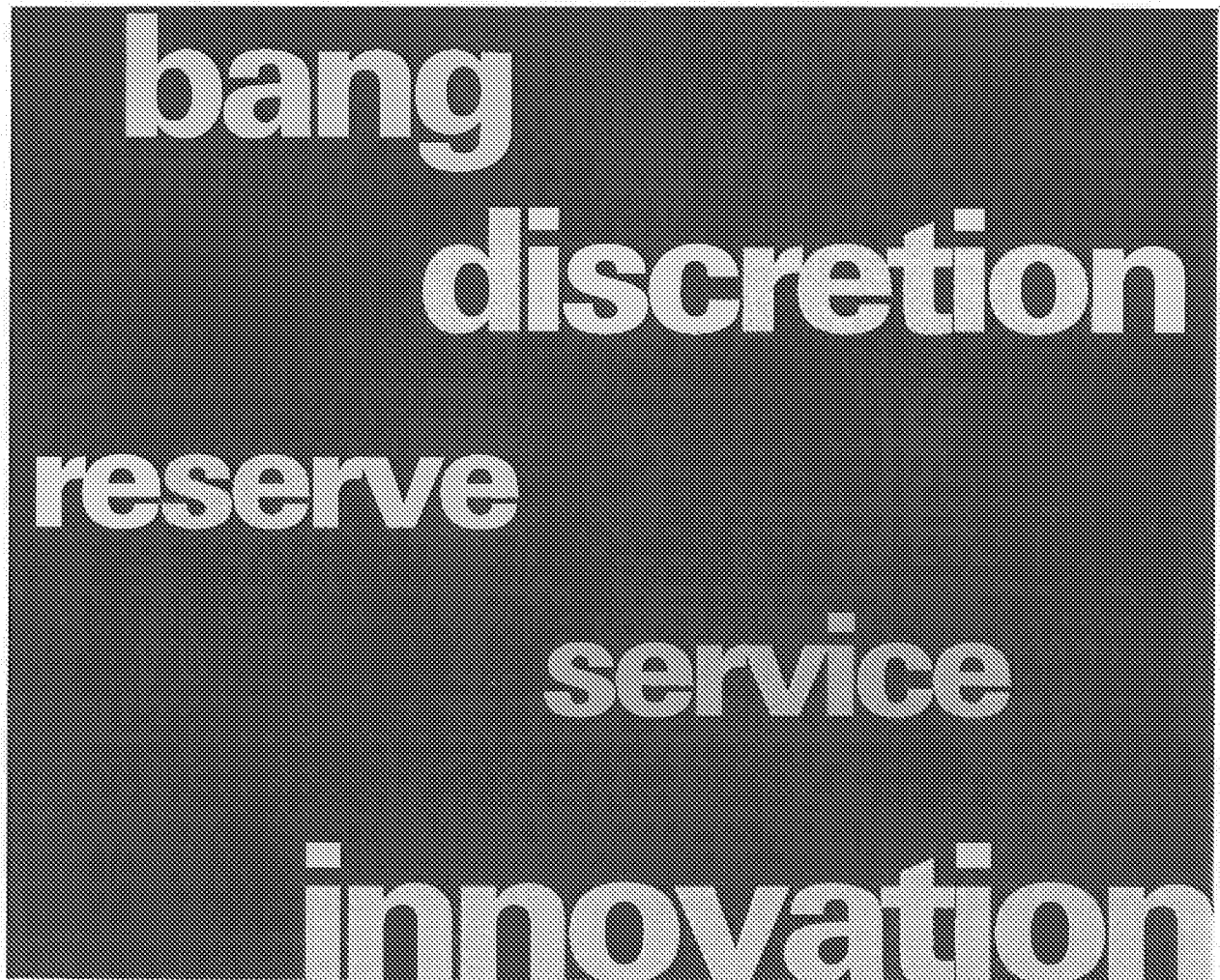
Bloomberg Tradebook supports two types of Reserve functionality: Book Reserve and Exchange Reserve (also known as an “Iceberg” order). The purpose of Reserve is to help limit market impact. Many traders think that the price of a security can be adversely impacted by displaying a large order size. By displaying only a portion of your order to the market while keeping the balance in reserve, many feel the impact may be lessened.

Some exchanges support Exchange Reserve — where the undisplayed portion of the order is held in reserve at the exchange. Here, the entire order can participate with the exchange’s natural liquidity, including any exchange auctions. For those exchanges, Bloomberg Tradebook offers the Exchange Reserve (EXCH RES) order type.

For those exchanges that do not offer a Reserve feature, Bloomberg Tradebook offers Book Reserve, where only a pre-specified display portion of your entire order is initially sent to the exchange, while the remainder (the reserve) remains on your Bloomberg Tradebook blotter, away from the marketplace. When this initial display amount is filled, Bloomberg Tradebook immediately re-fires another portion (your preset display size) of the order into the exchange. This process is repeated until the order is filled or cancelled. In your GTPR settings, you choose the re-fire amount to be either a fixed or random amount. Only orders that are held in reserve on Bloomberg Tradebook are eligible for E-Crossnet matching (see page 14).

# Innovative Trading in the BLOOMBERG TRADEBOOK Nasdaq Marketplace

## user manual



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Exhibit D

March 2000

# V. Innovative Trading Tools

## A. Reserve

**Trade and execute larger sizes without revealing your full intentions**

TRADEBOOK's reserve feature enables you to submit and execute orders in TRADEBOOK without revealing the full size of your orders. These orders, by interacting with all other market participants across the Nasdaq system, will give you access to all sources of liquidity without other market participants seeing how large a buyer or seller you actually are.

Most traders, on average, do not like to bid for or offer size because they are concerned about the market impact that such large visible orders might create. Other participants are likely to modify their behavior when they see a large visible order. While traders don't want to post large visible orders, they do want to be in position to buy or sell large quantities. TRADEBOOK's reserve feature offers a solution to this problem by allowing traders to post a small visible bid or offer and place the rest of their order in a "reserve" that can't be seen by others.

### **Adding reserve to a TRADEBOOK order**

Example: Current market for QWST 83 / 83 1/4 10 x 40

Let's assume you want to buy 20,000 shares of QWST at 83 but only want 1,000 shares to be displayed, while the other 19,000 shares are placed in reserve. There are several ways to do this on TRADEBOOK.

#### **A. Set your displayed quantity in your TRADEBOOK Profile—BTPR**

The first line in your profile (accessed by typing BTPR) can be used to set a display default (this can be changed with any order if need be, but can ease order entry where you wish to go with your usual displayed quantity). In our example, you could set the TRADEBOOK display to 1,000 shares. Any order entered for greater than 1,000 shares only displays a quantity of 1,000 shares, with the remainder placed in reserve. To enter the 20,000 share order, type the following:

**TRADEBOOK keystrokes:** QWST  then  20000 83



This is the easiest way to utilize the Reserve feature. This automatically utilizes the TRADEBOOK display default and creates a TRADEBOOK bid for 1,000 shares, with the remainder placed in reserve. A confirmation message appears before the order is completed.

#### **B. Set your display and reserve quantities while entering your order**

Instead of using the setting in your profile, you can specify your displayed and reserve quantities in the order itself. To enter the same order as above, type the following:

**TRADEBOOK keystrokes:** QWST  then  1000 83 19000

Or you could choose a greater displayed quantity, for example 5,000 shares, by typing the following:

**TRADEBOOK keystrokes:** QWST  then  5000 83 1500

You can also add reserve to your order when using the TRADEBOOK tickets (BTB, BTS, BTSS, or BTSE).